TRADING

Although firms experienced some trading losses in the second and fourth quarters, mainly from bond inventories in the second quarter and equity inventories in the fourth, each quarter showed black ink in this area. In fact, 1987's first quarter gain of $3.9 billion was second only to the $4.0 billion gain posted in Q1 1986. But the year's annual $9.9 billion gain was down 21% from 1986's record $12.6 billion gain and was even edged out slightly by 1985.1/

Moreover, the quarterly swings were dramatic and in the case of some firms, trading losses in some quarters were extremely large, concentrated in a few securities and traders' desks, and led to departmental shake-ups and some new, and perhaps much warranted, positioning limits and controls.

As mentioned earlier, the securities industry's gravitation away from "riskless" agency-type businesses towards risk-based "principal" business lines, has taken its toll in terms of higher volatility. We've seen this volatility demonstrated earlier and it was also mentioned that commission's once dominant role in the P&L has been overtaken by these principal transactions. Forgetting underwriting, M&A, bridge loans, etc., for the moment and defining "principal" business as the sum of trading and investment gains, what impact on revenues and profits has been made by this shift?

Table 11 maps the quarter to quarter changes, in absolute dollar amounts, of principal business revenues to total revenues and pre-tax profits for the past three years. In all but the final quarter of 1986, increases in revenues and profits tracked that of principal business revenues. Not only was the direction, whether up or down, correlated, but the magnitude of the swings of all three were similar in most instances.

1/ Actually, the gains on firm securities trading accounts are biased upwards while any losses are biased downwards. This results from the instructions on the FOCUS Report. Dividends on equities and interest on fixed income securities held for trading purposes are included by firms when reporting their gains or losses from trading accounts. The inclusion of these revenue sources makes it difficult for a firm to report trading losses. For years, SIA analysts have requested the SEC to revise this way of reporting trading profits and losses. If the FOCUS Report is revised, and there are rumors that this is planned, one of the key changes to make the income statement more meaningful will be the separation of dividends and interest income from the actual gains and losses recognized by firms in their trading positions.

Table 11

QUARTER TO QUARTER CHANGE IN PRINCIPAL TRANSACTION REVENUES VS TOTAL REVENUES AND PRE-TAX PROFITS

(In $ Millions)

Quarter	85:1	85:2	85:3	85:4	86:1	86:2	86:3	86:4	87:1	87:2	87:3	87:4
Principal	57	62	(452)	1216	1099	(1177)	(393)	(215)	1882	(2511)	528	(2201)
Revenues	432	284	(393)	2756	1311	(445)	(711)	1208	1756	(2070)	727	(3402)
Profits	431	91	(318)	767	476	(619)	(266)	101	882	(1519)	207	(2981)

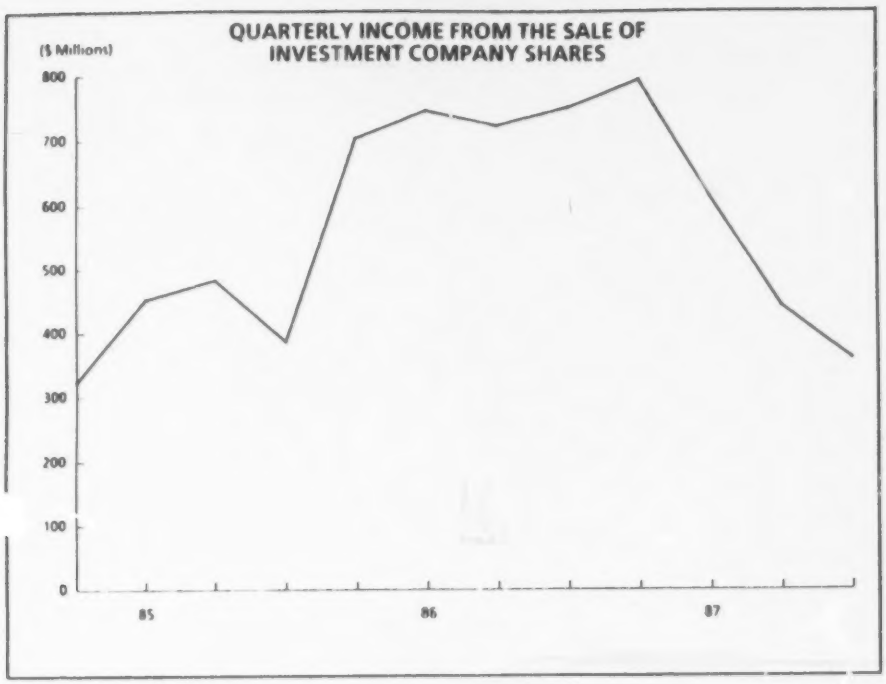
MUTUAL FUNDS

Following a decade of sustained growth, including the recent two banner years, 1985 and 1986 in which the sales of new mutual funds doubled annually, last year saw the first drop-off in this product. According to the Investment Company Institute (ICI), the trade group for the mutual fund industry, sales of all stock, bond and income mutual funds (excluding short-term municipal and money market funds) last year declined to $191 billion, down 12% from 1986's record $216 billion tally. The decline, however, when put in the perspective of the phenomenal growth this industry has witnessed, is relatively small. The ICI figures show sales of these funds more than doubling in 1985 to $114 billion from 1984's $46 billion and then nearly doubling again to 1986's record level.

Revenues from the sales of mutual funds for the securities industry fell an even steeper 21% last year. After more than doubling to $1.6 billion in 1985 from 1984's $751 million level, mutual fund revenues skyrocketed again in 1986 to a record $2.8 billion. Last year, revenues from this source fell to $2.2 billion.

On a quarterly basis, the growth, and then decline, of mutual fund sale revenues has been almost linear, rising from $323 million in the first quarter of 1985 to a peak of $792 million in the first quarter of 1987 and then retreating to $360 million in 1987's closing quarter (Table 12).

Table 12



UNDERWRITING

Corporates

Underwriting revenues were definitely not crash-resistant. This source of funds dropped from $5.9 billion in 1986 to almost $5.2 billion in 1987, or about 13%. But at that level it still contributed 10% to all revenues, dead center of the 8% to 12% range underwriting has contributed to total revenues since at least the early Seventies. However, as expected, very little of the underwriting revenue, or less than 13%, was derived during the fourth quarter. At October's open, underwriting revenues were running about 10% higher than 1986's first nine month results.

Excluding mortgage and asset-backed securities, which have mushroomed to now cover one-third of the volume of all corporate underwritings, both the number and the volume of corporate issues dropped from 1986, according to IDD Information Services. Whereas 2,650 issues were distributed in 1986, this number fell to 2,058 last year while the value of these offerings declined from $215 billion to $178 billion for the year.

Even including mortgage and asset-backeds, value declined from a record $286 billion to $271 billion. It must be remembered, however, that this level is still twice the value of the next largest year, 1985's $138 billion.

Except for mortgage and asset-backed debt, the decline in offerings was literally across the board. Straight (non-convertible) debt offerings dropped slightly from $219 billion to $209 billion, although the number of issues stayed between 2,100-2,200 offerings. Only $37 billion, or 18%, of that total was handled between October and December.

Convertible debt was off only slightly from $10.1 billion to $9.8 billion but, as would be expected of an equity-linked product, only 4% of this total or $0.4 billion, was underwritten in the fourth quarter; otherwise, converts were headed for a record year.

Lower grade issues of debt also declined from $32 billion to $29 billion, as the number of such offerings fell from 228 in 1986 to 192 in 1987.

As noted earlier, all security offerings were down except collateralized and mortgage and asset-backed debt. The value of mortgage and asset-backed debt jumped from $68 billion to a record $92 billion in 1987, while the number of deals also increased. Still growing in popularity, CMOs, or collateralized mortgage obligations, increased in volume from $47 billion in 1986 to a record $56 billion last year. The increase in asset-backed securities, backed by credit cards and auto loans, was much smaller, going from $10 billion to $11 billion in the last two years. The anticipated explosion in these repackaged securities, which many thought would mirror CMOs growth pattern, never materialized--$6 billion was underwritten in 1983, $11 billion in 1984, only $1 billion in 1985 and as said, $10 billion and $11 billion in 1986 and 1987. CMOs, while still by far the largest segment of the asset-backed market, comprised 61% of all asset-backed underwritings last year, down from 70% in 1986. Other mortgage-backed bonds more than doubled to $25 billion last year from 1986's $11 billion level.

The value of common stock offerings was down minimally from $43 billion to about $41 billion, although the number of offerings was off sharply, from 1,199 to 842. Before the market crash, however, common stock issuance was headed for yet another record year but fourth quarter issuances were pared to half the level of the year's previous quarters.

IPOs were just the opposite, increasing slightly in importance from just over $22 billion to slightly more than $24 billion, although the number of issues dropped from 719 to 541 as the average size increased. But post-crash was another story - November saw only seven deals totaling under $300 million and December's tally was just $566 million from eight deals. Furthermore, some of these IPOs are not pure equity offerings as they include unit trusts, particularly bond funds.

The value of equity issues distributed prior to the crash amounted to $48 billion, while that occurring after the crash came to just slightly more than $4 billion in total. The devastating effects of the crash can be seen by the fact that there were only 38 equity issues in total after the crash.

Municipals

The decline in underwriting long-term (exceeding 13 months) municipal issues since 1985 continued last year. In 1987, long-term municipals amounted to $104.6 billion, the lowest figure since 1983's $86.8 billion, according to IDD Information Services/PSA Municipal Database. Last year's figure was less than half the peak of $222.2 billion underwritten and distributed in 1985, when issuers rushed to the market to avoid many provisions contained in the Tax Reform Act of 1986. Besides affecting the profitability of the securities industry, the decline in the municipal market has also affected industry structure, as some firms have left this market completely or elected to shrink their municipal operations.

Both revenue and general obligation bonds declined by almost the same percentages from 1986 to 1987. In 1987, revenue bonds amounted to $74.1 billion, a drop of 32% from 1986's $108.4 billion. Likewise, general obligation issues fell to $30.4 billion from $42.9 billion in 1986, or a 29% decrease.

During the first quarter of 1987, refunding volume was heavy as issuers seized the opportunity of relatively low interest rates. Of the $33.2 billion of long-term issues underwritten and distributed, 70% was for refunding purposes. With rates increasing in the second quarter, total volume and the refunding percentage fell, with $26.7 billion issued and 43% of that amount representing refunding. With interest rates stabilizing more or less at higher levels for the rest of the year, the volume of new issuance declined and the segment reflecting refunding purposes fell to about 30%. Total offerings during the second half of 1987 came to $44.6 billion.

The anticipated growth of taxable municipals was not realized in 1987. Compared to 1986, taxable municipals fell from $4.5 billion to $3.7 billion, or a decline of 18%. Unless there is more growth in taxable municipals in the future, there is some question whether the municipal market will ever recover the peak reached in 1985.

According to the PSA, the outstanding value of municipal securities amounted to $715 billion as of the third quarter of 1987 compared to just under $690 billion at year-end 1986. Since 1982, the greatest growth in holdings of municipal securities have been in mutual funds concentrating in municipal securities and the household sector. Funds have increased their holdings by over $115 billion, an increase exceeding 540%. Meanwhile, households have increased their holdings by $146 billion, or about 118%. In contrast, commercial banks continue to decrease their holdings with a decline of $20.8 billion from year-end 1986 through the third quarter of 1987. Because of changes in tax provisions, commercial banks have reduced their municipal holdings by almost $50 billion, or 20%, since the end of 1985. This changing customer base sheds a great deal of light about those securities firms which have chosen to abandon or consolidate their municipal operations.

OTHER INCOME RELATED TO THE SECURITIES BUSINESS

The "other securities related" revenue line, comprised mainly of merger and acquisition (M&A) fees, private placement activities and U.S. Government securities repo/reverse repo revenues, also proved "crash" resistant. Not only that, but it has been rivaling commissions as a prime revenue source in recent years and last year even exceeded "principal" transactions and appears destined to become one of the industry's prime revenue sources, at least for the near future (Table 13).

On a quarterly basis, revenues from these sources held pretty even throughout the year. Totaling $2.5 billion in the first quarter, these businesses generated $3 billion in each of the next three quarters.

Table 13

SOURCES OF SECURITIES INDUSTRY TOTAL REVENUES

(In Percent)

Year	Commissions	Principal Transactions	Securities Related
1976	45.8	20.3	7.8
1977	41.7	19.3	8.5
1978	42.8	17.5	9.6
1979	35.8	23.6	10.3
1980	35.4	23.1	10.8
1981	27.0	24.3	15.0
1982	25.9	28.2	17.0
1983	28.2	25.6	14.8
1984	22.7	26.5	20.1
1985	21.3	28.5	18.6
1986	20.9	27.4	19.1
1987	24.9	19.6	23.0

Besides growing in importance to the total P&L, the aggregate revenues generated from "other securities related" sources have shown impressive annual increases. Table 14 highlights the growth in these revenues and the growth in the markets for two of the major business lines included in "other related," M&A and private placements.

Table 14

"OTHER SECURITIES RELATED" REVENUE VS. M&A AND PRIVATE PLACEMENTS

(In $ Billions)

Year	"Other Related" Revenues	M&A Purchase Price	Private Placements
1980	1.7	44.3	18.3
1981	3.0	52.6	18.5
1982	3.9	53.8	22.1
1983	4.4	73.1	36.4
1984	6.3	122.2	53.0
1985	7.2	179.5	73.0
1986	9.6	247.1	121.7
1987	11.7	216.7	135.1

All the aforementioned combined, total revenues increased again last year, albeit by only 1%. On a quarterly basis, however, the first quarter showed an all time record revenue of $14.7 billion, and with it a record $2 billion pre-tax profit. The third quarter's $13.4 billion in revenues was the second highest ever but the concurrent $736 million bottom line was far down on the list of profitable quarters. For the fourth quarter's $10 billion of revenues we have to return to

1985 to find a smaller quarterly showing and the fourth quarter's disastrous bottom line has already been discussed.

EXPENSES

In an earlier part of this paper, we noted the deterioration in pre-tax profit margins and ROEs during the 1980s. Last year dramatized this trend. Given the disastrous fourth quarter, the percent change in revenues, 1.3%, was far surpassed by the percentage change in costs, 11.4%. As discussed earlier, basically two lines -- one a revenue source, the other an expense item -- accounted for the disastrous 1987. With losses in the investment account exceeding $1.3 billion during the fourth quarter and bad debts of $720 million during that same quarter, these two factors alone were responsible for over $2 billion of the $2.2 billion in losses during that quarter.

In addition to the tremendous losses in the investment account, it was clear that other revenue sources faltered during the fourth quarter. In particular, trading profits, underwriting revenues, mutual fund sales and commodity revenues all tailed off sharply after the third quarter. As far as expenses are concerned, besides the surge in bad debts, only non-recurring charges showed a sharp upswing during the fourth quarter. All other cost items more or less reflected roughly 25% of the year's costs during the fourth quarter.

Rather than get caught up in the drama of 1987 alone, we feel it is important to take a longer term perspective concerning profitability trends in the securities industry. Thus, we compared the percent change in revenues versus the percent change in expenses since year-end 1980. Since profit margins have been deteriorating throughout the eighties, it is no surprise that expenses have been rising faster than revenues. To be exact, from year-end 1980 through year-end 1987, expenses have risen about 261% as compared to a revenue rise of 216%.

Despite all the widespread publicity and hoopla about extravagant salaries and bonuses in the securities industry, employee and partner compensation has not been the main culprit behind the surge in expenses during this time period. Combining all compensation items since year-end 1980, these costs have risen 223% as compared to the total expense increase of 261%. Thus, it is noncompensation costs that have risen more dramatically during this time period. The chief culprits are occupancy and equipments costs (431%), EDP expenses (386%), and interest expense (314%).

Although compensation does not appear to have been a major culprit accounting for the deterioration in profit margins since year-end 1980, it has been a major contributor to this deterioration in recent years. For example, during the period 1985 through 1987, compensation in the industry was rising nine percentage points faster than total revenues (40% vs. 31%). If the period is extended by one year from 1984 through 1987, compensation was rising 14 percentage points faster than revenues, or 76% as compared to 62%. In other words, from 1984 through 1987, the securities industry got lackadaisical in terms of compensation rates rising considerably faster than revenues. This contrasts with the period 1980-83, when compensation costs rose 88.5%, while revenues were jumping 84.4%.

Table 15

REVENUES AND EXPENSE CHANGES
FROM 1980-1987

Revenues	1980-1987
Commissions	122.5%
Trading Profits	216.2
Investment Gains	(95.0)
Underwriting	288.1
Margin Interest	59.6
Mutual Fund Sales	2009.4
Fees, Account Supervision	931.1
Commodities	75.1
Other Securities Related	575.8
Total Revenues	216.3
Expenses	
Total Compensation*	223.0
RR Compensation	205.9
Clerical Compensation	256.2
Partner/Officer Comp.	165.6
Communications	205.0
Occupancy & Equipment	430.8
Promotional Costs	246.2
Interest Expense	314.4
Errors/Bad Debts	459.0
EDP	386.3
Total Expenses	260.6

* Excludes other employee compensation.

Meanwhile, interest expense, the second largest single expense item for this industry, behaved very differently. During the period year-end 1980 through 1987, interest expense rose by 314% as compared to a revenue increase of 216%. However, most of the increase in interest expense relative to revenues was in 1984. From 1984 through 1987, interest expense rose 50% as compared to a revenue increase of 62%. This is startling, given an increase in revenues of only 1.3% during 1987. However, a trend of declining interest rates in general played an important role in limiting the increase in interest expense for most of the 1980s. Except for 1984 and 1987, interest expense rose at a slower rate than revenues.

We conclude that this industry has benefited from sharp increases in revenues which have more than doubled during a seven year period from year-end 1980 through 1987. However, unfortunately, expenses have risen at an even faster rate, growing 261% during this same time period. Surprisingly, the main culprits during this time period have not been compensation, but such costs as EDP expenses, occupancy and equipment costs, interest expense, and errors and

bad debts. No single expense item has increased by less than double during this seven year period of time.

Although there were numerous warnings in this publication as well as elsewhere about costs getting out of control, these problems were masked by rapid rises in revenues which hid the underlying problems plaguing the industry. With the abrupt slowdown in revenue growth, dramatically evidenced by last year's fourth quarter, the industry is now forced to grapple with its underlying cost problem. This was reflected in the great interest indicated in the joint workforce study, "Wall Street's Workforce," soon to be published by SIA and Arthur Andersen.

Every manager in this industry has become cost conscious because of the change in atmosphere and environment facing the industry today. We remain confident that the industry will bounce back from these troubled times as it has with other larger challenges in the past. Cost control is not so much an impossibility as a troublesome and difficult problem requiring the willingness to deal with it. Now that managers realize this, maybe it will be possible to return to the days where ROEs and profit margins expanded as revenues increased such as during the Eighties. Managers in this industry should not be content with simply seeing increases in profits due to greater employment of capital and increased risk. Satisfaction should only return when profit margins and ROEs return to their upward trend as was the case for many of the years in the 1970s and several in the 1980s.

CONCLUSION

The securities industry has just gone through a disastrous, if not wrenching, year. After a promising start during the first quarter of the year, the market break in October was mainly responsible for the industry seeing its return on equity and profit margins falling to 13 year lows. Certainly, the fourth quarter loss exceeding $2.2 billion was unprecedented and 22 times the size of the previous record quarterly loss. Almost one-fifth of the industry's assets were wiped out in one quarter while one-third of the Dow Jones Industrial Average was wiped out in just one week. Given that new negative records were set across the board, the reader can select his own adjective to describe last year's impact on the securities industry whether it be disastrous, wrenching, or another word with equally dramatic and depressing overtones.

Few individuals, if any, can ignore and shrug their shoulders at the developments which occurred during October and the subsequent weeks. Coming on top of 1986's record pre-tax profits of $5.5 billion, which reflected a 33% increase over 1985's then record profits, made 1987's performance that more disappointing and bewildering.

Although this industry has lived with volatility for quite some time, it had never experienced volatile swings in earnings, profit margins and ROEs like that witnessed last year. This is bound to have psychological and long-term repercussions in how investors and firms view risk and the willingness to commit to risk-taking ventures. More and more investors now understand that liquidity is not a free good, but something that has to be paid for.

Most importantly, despite strenuous efforts over the last few years to reduce earnings volatility in this industry, these efforts have more or less been fruitless.

As the industry has been forced to rely further and further on principal-type activities, its earnings by definition have had to become more volatile, relying on risk-taking activities. We have made a complete transformation from acting as an agent, to taking positions in securities, to taking positions in companies.

Like other investors, securities firms were not unique in making mistakes concerning trading and investment positions. When a relatively few number of institutions all decided to head for the exit at the same time and to lighten up on their stock positions, the required liquidity was not available for their needs. The result was a plunge in stock prices and a scramble by these institutions to get out at any price. The impact on other more patient and presumably more value conscious investors who do not rely on complicated mathematical formulas telling them whether to buy or sell was devastating.

Most securities firms had been aware for some time that the relentless rise in expenses has had a serious dampening effect on their profit margins and return on equity. However, cost control is a difficult proposition forcing managers to say no to many proposals and to win few allies in doing so. It is much easier from a managerial and political viewpoint if revenues can be generated fast enough so everyone's desires for additional space and fancier quarters, as well as higher salaries can be met.

Even before the fourth quarter of 1987, firms were aware that the slowdown in revenues was forcing them to reevaluate earlier decisions that were causing expense increases. Several chose to look at several different businesses and given deteriorating profits and margins in those businesses to reduce their commitment or eliminate those segments from their product line entirely.

This is an industry of very entrepreneurial and intelligent individuals, and when revenues more than double over a seven year period and yet profit margins deteriorate it is obvious that expenses are a major problem. Surprisingly, compensation has not been the expense item causing the most problem relative to other costs or even revenues, although it remains the single largest expense segment for the industry and thus is usually one of the first targets of the firm's cost-cutters. Indeed, only in the years from 1984 through 1986 did firms seem to let this cost item get out of hand and increase too fast relative to revenues. Rather, investments in new technologies sometimes were too fancy with all the "bells and whistles" attached, and new and fancier quarters were simply adding to the fixed overhead of firms which they attempted to finance through processing and delivering ever greater and greater numbers of products. In conversations with securities firms, we think this painful lesson has finally been learned and a reluctance to add to overhead seems to now be ingrained in management's psyche.

Despite the wrenching change this industry has just gone through, we remain optimistic about the ability and ingenuity of management to solve the problems and return this industry back to periods of high profitability. We say this quite aware of the additional competition looming around the corner as discussions in Congress about giving banks additional securities powers proceed. The ability of securities firms to prosper has never depended on meeting the current competition, but rather finding unique niches and developing abilities to serve the investor by keeping one step ahead of the current and future competition.

This is an industry of constant change. As we are writing this issue, many large firms are seeing M&A experts leaving and starting up their own boutiques. Clearly, the evolution of the industry continues right before our eyes. Whether this will have a significant impact on those firms losing such experts remains to be seen, although the "market" seems to think so. However, our main conclusion remains the same: an industry that is used to constantly meeting challenges successfully is usually able to meet additional challenges as they come along. In other words, challenge and change is the norm for the securities industry rather than a unique phenomenon occurring once every few years.

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VOLUME

	JAN 1988	YTD 1988	JAN 1987	YTD 1987	% CHAN YTD 1988-1987
AVERAGE DAILY SHARE VOLUME ON					
NYSE (MILS.)*	174.8	174.8	193.1	193.1	-9.5%
AMEX (MILS.)*	9.9	9.9	14.8	14.8	-33.1%
NASDAQ (MILS.)*	123.3	123.3	151.8	151.8	-18.8%
REGIONAL EXCHANGE (MILS.)*	N/A	N/A	29.4	29.4	N/A
DOLLAR VALUE OF SHARES TRADED ON					
NYSE (MILS.)	$115,710	$115,710	$163,620	$163,620	-29.3%
AMEX (MILS.)	2,413	2,413	4,935	4,935	-51.1%
ODD-LOT SHARES PURCHASED ON NYSE (THOUS.)	7,648	7,648	11,321	11,321	-32.4%
ODD-LOT SHARES SOLD (INCLUDING SHORT SALES) ON NYSE (THOUS.)	12,690	12,690	19,103	19,103	-33.6%
NYSE BLOCK VOLUME AS A PERCENT OF TOTAL SHARES TRADED	52.1%	52.1%	50.8%	50.8%	----
CONTRACTS TRADED (THOUS.)					
CBOE OPTIONS	9,059	9,059	19,455	19,455	-53.4%
AMEX OPTIONS	2,986	2,986	4,789	4,789	-37.6%
COMMODITY	18,854	18,854	15,916	15,916	18.5%

*MONTHLY AVERAGE
N/A - DATA NOT AVAILABLE

UNDERWRITING

	JAN 1988	JAN 1987	% Change 1988-1987
CORPORATE FINANCING (Gross New Issues - $ Mils)			
TOTAL	$18,396.7	$23,456.0	-21.6%
Common Stock	$970.1	$2,334.0	-58.4%
# of Common Stock Issues	16	40	-60.0%
Preferred Stock	$1,068.0	$420.7	153.9%
# of Preferred Stock Issues	17	9	88.9%
Corporate Debt	$16,358.6	$20,701.3	-21.0%
# of Corporate Debt Issues	217	216	0.5%
MUNICIPAL FINANCING (Gross New Issues - $ Mils)			
Negotiated	$4,443.3	$7,131.4	-37.7%
# of Issues	119	161	-26.1%
Competitive	$1,494.3	$856.7	74.4%
# of Issues	77	50	54.0%

Source: IDD Information Services

PRICES
(END OF MONTH)

	JAN 1988	JAN 1987	% CHAN YTD 1988-1987
DOW JONES INDUSTRIALS	1958.22	2158.04	-9.26%
STANDARD & POOR'S 500	257.07	274.08	-6.21%
NYSE COMPOSITE	144.13	156.11	-7.67%
AMEX MARKET VALUE INDEX	269.10	300.47	-10.44%
VALUE LINE COMPOSITE	210.73	249.17	-15.43%
NASDAQ COMPOSITE	344.66	392.06	-12.09%

RECENT INTERESTING READING AND STATISTICAL MATERIAL

Item	Description	Source
"An Analysis of Banking and Securities Industry Profitability"	Study documents securities industry profitability and the volatility of earnings over time and compares them to the banking industry. Two basic points are made: 1. Profits from the securities industry are not large enough to have a meaningful impact on the earnings of the banking industry. Moreover, the securities industry is too volatile to be combined with the banking industry for public policy purposes. 2. Losses of $2.2 billion in the fourth quarter alone for the securities industry show the volatility and high risk nature of this industry and to join the to industries violates common sense in pursuing a safe and sound banking system.	SIA Research Department
How Capital Gains Tax Rates Affect Revenues: The Historical Evidence	Newest government study on the relationship between realizations of long-term capital gains and tax rates on capital gains. New simulation used offer support that higher tax rates lower realizations of capital gains, producing less revenue when incorporating a behavioral analysis than based on static analysis alone. Nevertheless, study finds the 1986 tax change in capital gains will yield a net revenue increase, and the proposed lowering of the capital gains rate to 15% would yield a net revenue loss. In addition, study indicates capital gains revenues would be maximized at marginal rates between 25% and 33%.	Congressional Budget Office Second & D Street,S.W. Washington, D.C. 20515
"Packaging Protection"	Firms admit there's little enthusiasm to create innovative products that would urge investors to get in on the ground floor of new opportunities created by the changing market environment. So firms are packaging products, often in unit investment trusts. However, some brokers and money managers are using aggressive strategies also to catch market opportunities.	Registered Representative March 1988

Source	Item	Description
"False Alarm-Foreign Investment Should be Welcomed, Not Feared"	The free economy may be on permanent trial but the charges tend to change. In past years the charge was that multinationals were moving jobs offshore. With the swing in exchange rates and global firms eager to expand U.S. operations, the charge is the "evils" of foreign investment. Author offers a scathing review (based on common sense) of both Buying Into America and the pending Bryant amendment.	Barron's 3/21/88
"A Consumption Tax"	Two articles. First article discusses the political and economic background in which a consumption type tax would be considered. Given little hope of balancing the budget without new revenue, the VAT is one alternative to assist in closing the gap if Congress decides against raising income taxes. The second article assesses the efficiency and equity of a VAT. Concludes VAT would make the tax system less progressive and compared to an income tax, would redistribute income from older to younger individuals.	Tax Notes 3/7/88
"The FW 1,000"	List of the 1,000 largest companies traded on U.S. markets ranked by market value. Other key yardsticks to appraise corporate performance include sales, ROE, and "relative strength"-- price change over the past 12 months. Highlights: 20 highest yielding stocks, fastest growing companies, and most profitable companies.	Financial World 4/5/88
SIA 1988 Directory & Guide	A guide to the membership, organization and services of SIA. Includes officers and members of the Board of Directors, committee members, and division and district leaders.	SIA Publications Dept.

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Securities Industry Trends

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AN ANALYSIS OF EMERGING TRENDS IN THE SECURITIES INDUSTRY
Produced by the SIA Research Department

Vol. XIV, No. 3 June 23, 1988

TWO DIFFERENT WORLDS

HIGHLIGHTS

Eight long months have passed since October's quake rocked the securities industry and opened a gaping fissure into which much of the industry's previous profits sank. In its wake was left a split securities world. This brave new world now sees the trading/investment banking hemisphere rapidly accelerating on its merchant-banking based axis while the retail hemisphere has almost ground to a halt. The following are a few highlights of this post-crash, split-world, securities industry analysis:

1. This year's first quarter commission revenues, retail's staple, fell to $2.4 billion, the lowest quarterly showing since 1985.

2. The first quarter's $3.1 billion trading gain was the third highest ever while the $827 million investment gain was a quarterly record, reversing this line's Q4 record loss.

3. Disregarding these two "hemispheres'" vast differences, the "total" securities industry's 1988 first quarter profit margin and ROE roughly tripled over 1987's full-year level.

4. National Full Line, Discounter and Regional firms' bottom lines were all severely impacted by retail's Q1 anemic activity while Large Investment Banks and their smaller New York City-based cousin firms saw profits soar on a merchant banking geyser.

5. Cost cutting and expense control measures, however, seem to be taking hold with Q1 expenses declining faster than anticipated given revenue's fall-off. Highlighting this was a pare-back in more than 14,000 jobs, or over 5% of the workforce, in the six months since the crash. We believe there remain too many encouraging signs to project the demise of firms focusing on the retail customer.

6. Likewise, we believe merchant banking activities are not the only strategy for finding a panacea to the industry's problems. LBOs and similar strategies have flourished in a strong economy with stable interest rates. Under more adverse conditions, merchant banking will face challenges that must be overcome if they are to become a permanent fixture of the securities industry's business.

INTRODUCTION

Eight long months have passed since "that day" and all is not right in the securities world. Granted, this year has not registered another October quake off the Richter Scale, but the aftershocks are still being felt. Actually, these aftershocks are mostly felt in one hemisphere -- retail -- but that's where most firms reside. For the investment banking/trading hemisphere, October's rubble has been cleared and rebuilding is mostly complete.

Without even looking at categories of firms' results (i.e. Regionals, Large Investment Banks), the first quarter's "total industry" picture held some not-so-subtle hints that the two hemispheres are each spinning on a quite different axis. Commission revenues, the land of retail's manna, fell to $2.4 billion, a full-blown famine -- it was the lowest quarterly figure since 1985. On the other side of the globe, meanwhile, the "principle position" people were reaping their harvest. Trading profits soared to $3.1 billion -- the third highest quarter ever, only behind the phenomenal first quarters of 1986 and 1987. Investment profits also shot out of the fourth quarter's record $1.3 billion loss crevice, volcanoing to never before seen heights -- $827 million in gains (which still doesn't make up for the Q4 fiasco and again highlights merchant banking's volatility and risk).

No seismologist was needed to read the remaining retail revenue line tremors: mutual fund revenues, until early last year continually registering growth off the scale, fell back to 1985 levels (since that year, only last year's fourth quarter trough was lower).

Meanwhile, other investment banking movers and shakers were as active as ever. The "Other Revenue Related to the Securities Business" P&L line (the FOCUS Report's way of reporting M&A, Private Placement and Repo activity) kept pace with last year's $3 billion record quarterly clip.

If we ignore the vast differences of the industry's two hemispheres, the "total industry" booked $13 billion in revenues during this year's first quarter -- the third best quarter ever in revenue; behind only last year's record Q1 total of $14.7 billion and Q3's $13.4 billion! Wearing the same blinders, the "total industry" also booked a pre-tax profit of $1.1 billion in this year's first quarter, nearly matching last year's full year (although crash-impacted) pre-tax profits of $1.2 billion. Annualized, the first quarter's profits would only trail 1986's record $5.5 billion annual profit showing.

Although one sometimes can't see the trees for the forest when analyzing "total industry" data, especially of late, the following still puts the state of the securities industry in a little clearer perspective.

Q1 1988 TOTAL INDUSTRY

Despite a lot of moaning and groaning, the good news is that the industry's pre-tax profit margin and ROE roughly tripled from 1987 to the first quarter of 1988. Indeed, despite what many individuals perceived as a relatively weak first quarter, the annualized figures would provide results also surpassing that of 1984. For the industry, pre-tax profit margin and ROE came in at 8.7% and 18.1%, respectively, on an annualized basis. The bad news is that these percentages were roughly 80% and two-thirds, respectively, of that reached in 1985 and 1986, years when the industry's deterioration in these key ratios were already becoming increasingly apparent to observers.

Table 1

PRE-TAX PROFIT MARGINS
(In Percent)

Firm Category	80	81	82	83	84	85	86	87	88*
National Full Line	10.9	6.9	8.8	8.6	(0.9)	5.6	6.9	(0.9)	1.4
Lg. Investment Banks	17.7	15.4	17.4	16.7	11.4	14.6	13.5	4.7	11.9
Regionals	14.7	11.2	11.1	12.6	2.6	9.4	11.0	5.5	4.3
New York City Based	14.8	12.6	14.0	18.3	8.9	12.3	16.1	2.2	15.8
NYSE Discounters	17.5	12.2	13.6	14.0	0.3	8.9	15.7	8.6	3.8
Total Industry	**14.1**	**10.8**	**13.1**	**12.9**	**5.2**	**10.7**	**11.0**	**2.3**	**8.7**

* First quarter.

PRE-TAX RETURN ON EQUITY
(In Percent)

Firm Category	80	81	82	83	84	85	86	87	88*
National Full Line	45.0	24.6	29.8	28.1	(2.6)	17.9	20.3	(2.1)	2.9
Lg. Investment Banks	55.7	56.7	54.8	43.8	31.1	38.5	34.2	9.3	25.6
Regionals	N.A	37.2	36.0	40.5	6.8	29.0	32.7	14.1	9.2
New York City Based	N.A	42.1	43.3	50.7	19.9	31.2	35.4	3.9	33.1
NYSE Discounters	N.A	52.2	53.9	46.7	0.8	25.6	49.5	19.7	6.4
Total Industry	**49.2**	**35.9**	**40.5**	**36.6**	**13.3**	**29.4**	**28.6**	**4.9**	**18.1**

* First quarter annualized.

Other good news is that the industry's quarterly net income jumped from less than $300 million in 1987 to over $1.1 billion during Q1 1988. However, Q4's record $2.1 billion loss really dragged down the 1987 quarterly average, wiping out Q1's record $2.0 billion profit. Still, firms must live with the "net" for the whole year so this profit jump is quite impressive since first quarter 1988 revenues were up only 2.5% from average quarterly revenues for 1987.

Fortunately, cost-cutting measures and expense controls are now becoming effective at securities firms. Quarterly costs were down over 4% from the average for last year. Naturally, some of these cost declines were attributable directly to revenue declines, which move in tandem with certain costs such as RR compensation. Keeping an eye on the big picture, two of the three major cost categories -- interest expense and RR compensation -- fell during Q1 1988 (the declining RR compensation expense actually registered its biggest nose-dive in last year's final quarter). These two cost components make up almost 46% of the total costs of the securities industry. If clerical and administrative compensation were included, we would be describing cost trends accounting for two-thirds of the industry's total expenses.

Because of their relative importance, the relentless increase in clerical and administrative compensation as well as occupancy and equipment costs remain of grave concern. Both of these costs rose 8-10% during Q1 1988 relative to the quarterly average for 1987 hinting at "stickiness" in a downward direction. Clerical compensation, in fact, climbed back up to last year's first quarter record level of $2.5 billion, exceeding Q2 through Q4's $2.3 billion, $2.4 billion and $1.9 billion levels, respectively!

Table 2

STATEMENT OF INCOME
TOTAL SECURITIES INDUSTRY

(In $ Millions)

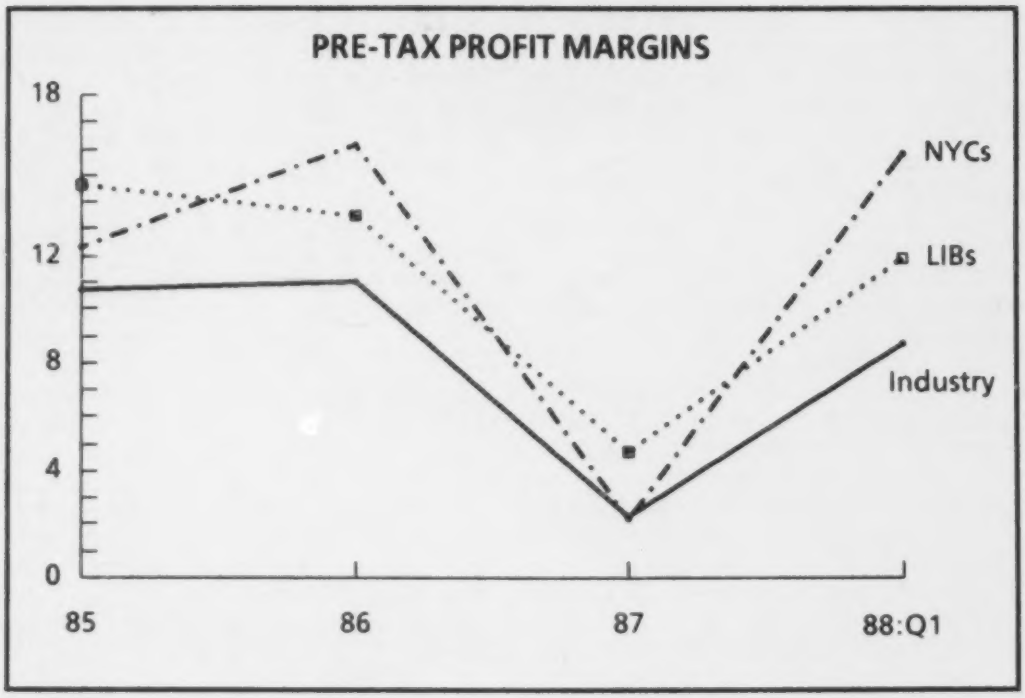
Revenues	1986	1987	% Chg.	Quarterly Avg. 1987	88:Q1	% Chg.
Commissions	10,472.6	12,646.4	20.8	3,161.6	2,424.2	(23.3)
Trading Profits	12,560.8	9,972.5	(20.6)	2,493.1	3,110.4	24.8
Investment Gains	1,143.3	67.8	(94.1)	17.0	827.8	N/A
Underwriting	5,938.6	5,156.8	(13.2)	1,289.2	1,187.6	(7.9)
Margin Interest	2,919.5	3,352.3	14.8	838.1	657.5	(21.5)
Mutual Fund Sales	2,801.1	2,208.8	(21.1)	552.2	430.0	(22.1)
Fees, Account Supervision	1,466.7	1,811.5	23.5	452.9	345.9	(23.6)
Research	45.6	24.4	(46.5)	6.1	9.8	60.7
Commodities	1,064.7	1,093.4	2.7	273.4	366.7	34.1
Other SecuritiesRelated	9,552.0	11,680.4	22.3	2,920.1	2,930.1	0.3
Other Unrelated	2,119.0	2,798.5	32.1	699.6	725.6	3.7
Total Revenues	50,082.4	50,811.0	1.5	12,702.8	13,015.9	2.5
Expenses						
RR Compensation	9,183.8	9,335.1	1.6	2,333.8	2,054.0	(12.0)
Clerical Compensation	8,423.2	9,079.6	7.8	2,269.9	2,469.6	8.8
Partner/Officer Comp.	1,358.0	1,508.1	11.1	377.0	354.3	(6.0)
Other Employee Comp.	439.7	630.7	43.4	157.7	138.9	(11.9)
Floor (Commission/Clearing)	1,697.8	2,188.3	28.9	547.1	446.5	(18.4)
Communications	2,288.1	2,555.7	11.7	638.9	610.8	(4.4)
Occupancy & Equipment	2,178.5	2,729.3	25.2	682.3	749.2	9.8
Promotional Costs	1,036.4	1,203.1	16.1	300.8	233.3	(22.4)
Interest Expense	12,425.4	14,271.3	14.9	3,567.8	3,364.7	(5.7)
Errors/Bad Debts	431.9	1,142.9	164.6	285.7	110.2	(61.4)
EDP	632.2	759.5	20.1	189.9	181.9	(4.2)
Non-Recurring Charges	70.7	99.5	40.7	24.9	11.4	(54.2)
Regulatory Fees	310.1	328.0	5.8	82.0	87.2	6.3
Other	4,096.2	3,806.3	(7.1)	951.6	1,074.8	12.9
Total Expenses	44,570.9	49,638.9	11.4	12,409.7	11,886.8	(4.2)
Pre-Tax Net Income	5,511.5	1,172.1	(78.7)	293.0	1,129.1	285.4

RR compensation's drop was to be expected. First, the level of business and RR production has fallen dramatically since the crash. According to another SIA publication, "Production and Earnings of RRs," during the first six months after the crash, average gross production fell 24.2% for retail RRs and 22.3% for institutional RRs! Second, from September 1987 to March of 1988, the number of RRs employed by the "total industry" fell 6.7%, a net loss of 6,439 account executives. This drop was concentrated in the 10 National Full Line firm category (now nine after the Shearson/Hutton merger, which contributed to the employment decline) -- this group's RR workforce dropped 10% over the same period, a loss of 6,150 account executives or 96% of the industry's decline. Employment and compensation changes were uneven across firm categories and will be discussed later in the sections covering each category.

Despite the surge in quarterly profits from 1987 to the first quarter of 1988, we are concerned that these profits were highly concentrated in a relatively small number of firms. As mentioned earlier, we suspected this even before the firm category data became available because of changes in the first quarter revenue sources for the industry (which were available a week earlier). Commission revenues, margin interest revenues, commissions from mutual funds sales, and management fees all plunged from 20-25% during Q1 1988 relative to the quarterly average for 1987. At the same time, trading profits and investment gains rose from $2.5 billion to $3.7 billion. In addition, revenues related to the securities business (such as M&A and private placements) remained vigorous during the first quarter.

These trends suggest that the Large Investment Banking firms and New York City-Based firms, both of whom rely heavily on merchant banking, trading activities and investment positions, dominated the industry's profitability picture during the first three months. In other words, 23% of the firms accounted for 61% of the profits. More dramatically, the LIBs alone, or 2.5% of the firms, accounted for over 43% of the industry's profits. At the same time, firms more heavily dependent on the commission business and the retail customer -- Wirehouses, Regional firms, and Discounters -- felt little relief from the bearish trends and gloom ignited with the market crash of October 19, 1987.

As noted in our last Trends issue, the industry's 1987 results in terms of profit margin and return on equity were at their lowest levels during the 1980s. While revenues inched upwards by 1.5%, total expenses jumped over 11% during 1987. With industry profit margins falling 79% and ROE plunging 83%, no firm category escaped this carnage. However, firm categories which suffered the most during the Q4 crash, for the most part, recovered fastest during Q1 1988, except for the wirehouses.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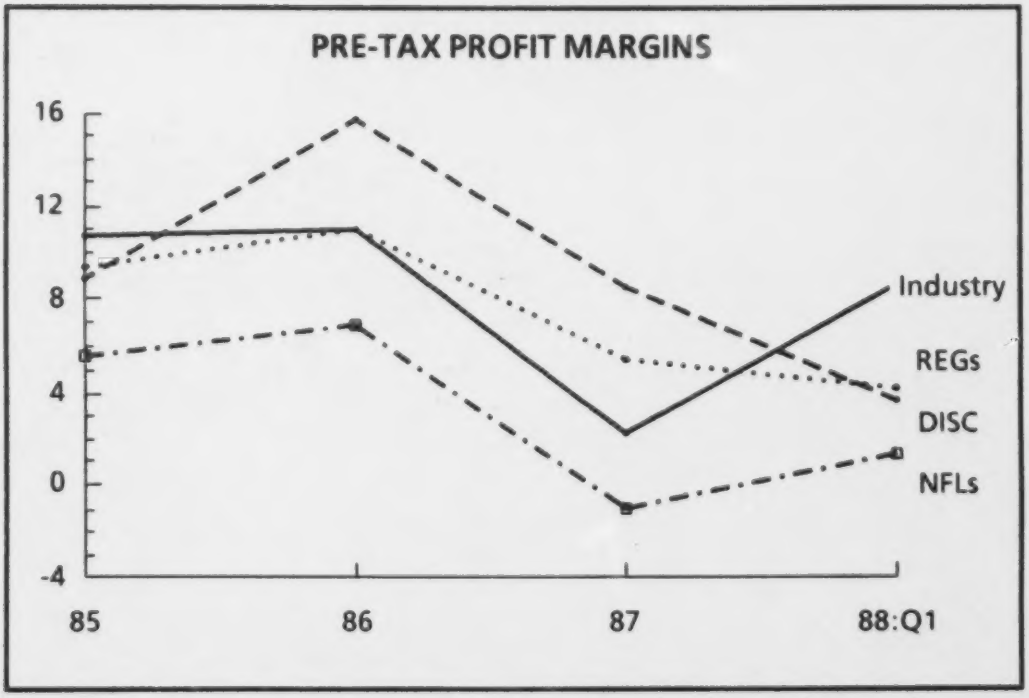
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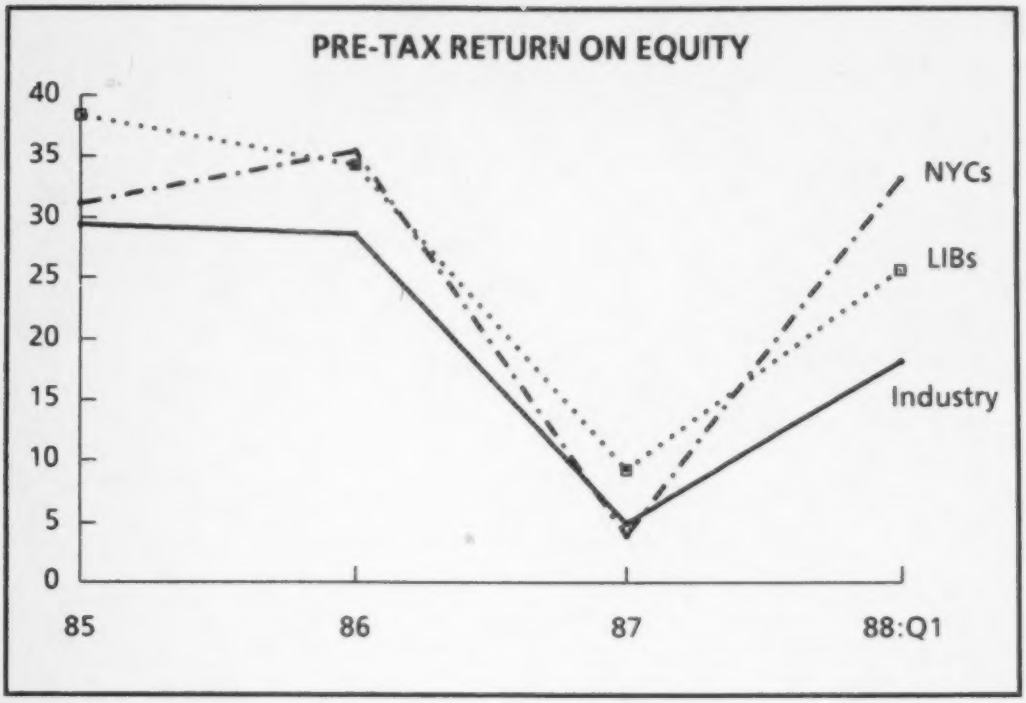
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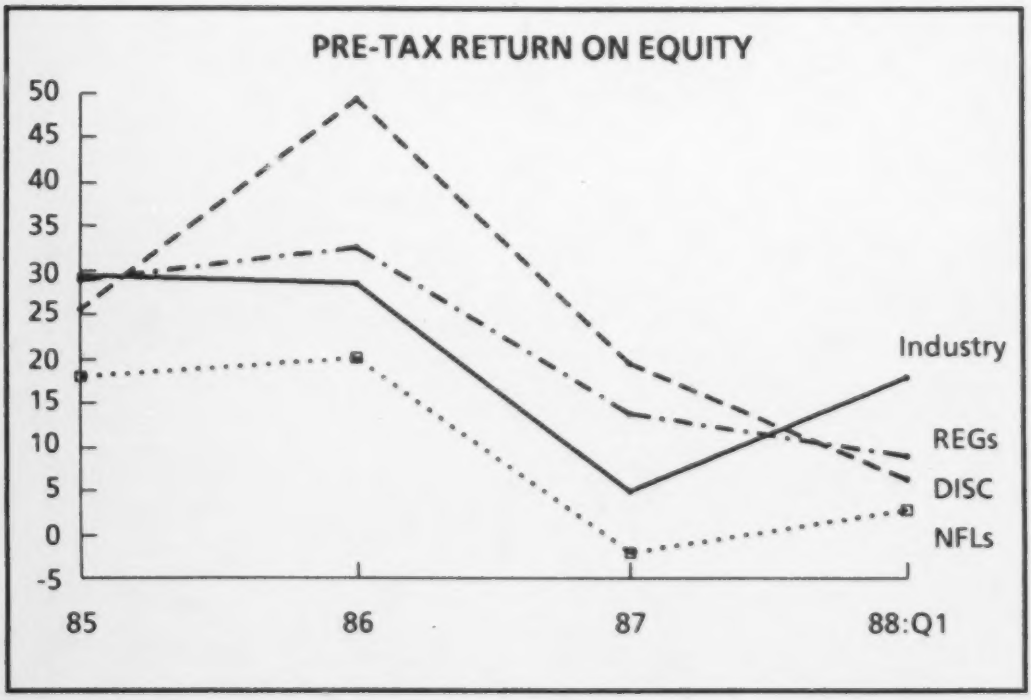
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NATIONAL FULL-LINE FIRMS

The National Full-Line firms lost $193 million in 1987. This group of 10 firms (now nine) are the metro-centers of the retail hemisphere's population -- and it showed. Not only is the post-crash rubble still smouldering, it's smouldering without the benefit of any meaningful previous rebuilding from past disaster years (see Table 3).

Even before (or mostly before) the pre-October quake, the NFLs were having trouble, Last year, revenues dipped 1% and expenses rose over 7% causing their bottom line to plummet from a $1.5 billion pre-tax profit in 1986 to a $200 million loss for 1987. The retail business aftershocks are still being felt -- this year didn't begin much better. The meager $74 million pre-tax profit in the first quarter would net a full-year profit under $300 million. The 10 Large Investment Banks have already booked 65% more than that annual figure in the first quarter alone!

Last year, the NFLs incurred losses despite reining in compensation expenses fairly tightly. RR compensation and clerical and administration salaries rose less than 4% and 1%, respectively. On the other hand, interest expense jumped over 14%. This size increase in their third largest cost component was bound to shatter their bottom line. They must get a better handle on their communications, occupancy and equipment, and promotional and interest costs if they are going to successfully manage their firms through a period of slower revenue growth as in 1987. It appears that management has focused quickly on headcount and compensation in grappling with slower revenue growth. These efforts have to be broadened to other costs as well.

There are some signs that this is happening, particularly with regards to interest expense, as the National Full-Line firms posted a modest $74 million profit during the first quarter of 1988. These firms were able to cut expenses, down 5%, while revenue fell off 2.7% during the first quarter. However, our deep concern remains concerning their ability to manage clerical and administration salaries and occupancy and equipment costs, both of which rose over the 1987 quarterly average. With clerical and administrative salaries usually being their second largest single cost, this expense deserves their careful and prudent attention if the slowdown continues.

For instance, during the first quarter, the NFLs allowed clerical compensation to rise to a record $1.3 billion -- this despite their elimination of over 3,000 clerical jobs since the crash! Further, although the first quarter's RR compensation was the lowest since 1985, a good sign helped by a 10% reduction in their RR workforce since the crash (6,150 jobs) this decline was also helped by lower gross production, which is a two-edged sword. For instance, 1988 Q1 compensation for RRs fell 14% from the 1987 average but commissions in Q1 fell twice as far, down 23% from the 1987 average! These commissions, traditionally the NFLs' prime revenue source (although trading gains have become the #1 revenue source in some recent quarters), came in at an even $1 billion. That's the lowest quarterly level for these firms since 1985! Other bad news also appeared in Q1's upper half of the P&L. Margin interest revenues were the lowest in two years and for mutual funds, only two other quarters (last year's Q3 and Q4) showed lower revenues since 1985.

Although the NFLs are also in the investment banking business and were able to salvage a first quarter profit due to relatively decent underwriting revenues and trading and investment gains, their "other securities related revenue," which would reflect their share of the first quarter's booming M&A and private placement activity, was very weak -- falling back to 1985 levels on an annualized basis. Clearly, these firms prefer "market risk" over "credit risk." They are not that comfortable yet with merchant banking where they lend their own capital on a short-term illiquid basis in the hope of receiving an equity stake in a company where the rewards can, at times, be quite impressive.

Table 3

STATEMENT OF INCOME
NATIONAL FULL-LINE FIRMS

(In $ Millions)

Revenues	1986	1987	% Chg.	Quarterly Avg. 1987	88:Q1	% Chg.
Commissions	4,517.0	5,354.3	18.5	1,338.6	1,037.1	(22.5)
Trading Profits	5,513.9	4,414.0	(19.9)	1,103.5	1,419.2	28.6
Investment Gains	20.5	(82.3)	N/A	(20.6)	147.6	N/A
Underwriting	2,947.0	2,475.9	(16.0)	619.0	621.7	0.4
Margin Interest	1,487.1	1,673.9	12.6	418.5	366.8	(12.4)
Mutual Fund Sales	2,024.8	1,579.7	(22.0)	394.9	335.1	(15.1)
Fees, Account Supervision	626.2	748.2	19.5	187.1	141.0	(24.6)
Commodities	737.0	792.2	7.5	198.1	189.4	(4.4)
Other Securities Related	3,652.7	4,232.0	15.9	1,058.0	840.0	(20.6)
Other Unrelated	370.0	495.2	33.8	123.8	175.5	41.8
Total Revenues	21,896.8	21,683.2	(1.0)	5,420.8	5,274.1	(2.7)
Expenses						
RR Compensation	5,498.4	5,698.9	3.6	1,424.7	1,221.9	(14.2)
Clerical Compensation	4,562.4	4,606.5	1.0	1,151.6	1,304.2	13.3
Partner/Officer Comp.	210.1	262.6	25.0	65.7	40.0	(39.1)
Floor (Commission/Clearing)	452.0	560.6	24.0	140.2	108.9	(22.3)
Communications	1,351.4	1,493.4	10.5	373.4	361.4	(3.2)
Occupancy & Equipment	1,235.5	1,531.9	24.0	383.0	404.9	5.7
Promotional Costs	592.6	687.5	16.0	171.9	127.2	(26.0)
Interest Expense	4,006.0	4,576.4	14.2	1,144.1	887.6	(22.4)
Errors/Bad Debts	313.4	630.1	101.1	157.5	81.4	(48.3)
EDP	229.5	252.9	10.2	63.2	62.1	(1.7)
Non-Recurring Charges	45.0	30.1	(33.1)	7.5	6.2	(17.3)
Regulatory Fees	165.5	170.7	3.1	42.7	54.1	26.7
Other	1,715.9	1,373.9	(19.9)	343.5	540.5	57.4
Total Expenses	20,378.0	21,875.8	7.4	5,469.0	5,200.6	(4.9)
Pre-Tax Net Income	1,518.8	(192.6)	(112.7)	(48.2)	73.6	N/A

LARGE INVESTMENT BANKS

The Large Investment Banks, which saw their bottom lines sink into the crash's crevice in Q4 1987, have capitalized on their merchant banking strategic decisions to rebuild and restructure not only corporate America but their own bottom lines.

This strategy, to bet one's capital on the highly risky and volatile merchant banking field, showed its uglier head in the fourth quarter...LIBs posted their first quarterly loss in recent memory. However, risk taking and volatility can eventually pay-off if pockets are deep enough to stay at the table.

But this group's stellar performance (considering the circumstances) in Q1 still didn't recoup all losses. For example, the record $205 million the LIBs lost in their investment accounts in Q4 was not recouped in their impressive $194 million gain in Q1 -- reminiscent of the "house" always wins.

Since the LIBs dominate the "other half" of this split securities world, a little more background on their recent performance (bear in mind that all data in Trends refers to the domestic broker-dealer operations only):

LIBs saw their profit margins drop from 13.5% in 1986 to 4.7% in 1987. In addition, their pre-tax ROE plunged from 34% to just over 9% last year. Their net income recovered smartly during the first quarter of 1988 as revenues expanded by over 11% while costs were rising under 3%. These revenue gains were attributable to impressive performances in their trading and investment positions as well as merchant banking activities. Like every other firm category, their commission business continued to suffer since the October market break as commission revenues and associated activities fell over 25%. Their largest expense category, interest expense, increased only 6% while trading and investment gains were up considerably more. However, their clerical and administrative expenses were up over 16%, which remains a cause for concern given the relatively high ratio of support personnel to producers, as shown in the soon-to-be published SIA/Arthur Andersen Workforce Study.

We feel, however, that the LIBs' compensation increases may be vastly overstated. For some reason, the LIBs' FOCUS data showed a one-time 50% cut in RR and clerical compensation expense in Q4 (back to 1984 levels) which bounced back in Q1! Meanwhile, the LIBs' clerical staff was slashed 10%, or by 2,700 jobs, in the six months since the crash and their smaller (about one-third) RR workforce saw an over 4% reduction during these same six months!

As for the LIBs' largest expense, interest, comprising almost half of their total costs, their ability to keep this expense item from rising near their revenue gains surely helped account for a major portion of the sharp improvement in performance during Q1 1988.

The healthy sphere of the securities business has much to do with the flourishing merchant banking business reflected in the FOCUS lines -- investment gains and revenues related to the securities business. After increasing almost 22% in 1987, merchant banking revenues were up another 17% during Q1 1988. After being scarred by market risk during Q4 1987, the LIBs, in particular, have embraced merchant banking, or credit risk instead. The market treated these firms harshly in 1987 not only because of the October 19 crash which saw the DJIA down 36% from its August peak

but because of losses sustained in the fixed income markets, where Treasuries plunged 26% between 3/27/87-10/19/87.1/

After such a scarring, it is no wonder that the LIBs and other firms have turned to merchant banking. After all, during Q1 1988, $39.5 billion of takeovers were completed (217 deals for more than 50% of a company) while $133.9 billion (432 deals) were announced compared to $31.4 billion of M&A deals completed and $65.6 billion announced during Q1 1987.2/ The M&A fever is being pushed by: (1) post-crash "cheap" stock prices; (2) foreign takeovers stimulated by the cheap dollar; and (3) a desire to complete deals while the current Administration is in power.

So far, these activities have, for the most part, been gold mines. One word of caution: asset values vary according to the economic cycle. A recession will change the LBO outlook dramatically as asset values fall while the debt remains. However, we have remained more optimistic about the economy than many other observers since October. The prices being paid for companies is about the same as before Black Monday while stocks are trading about 25% below the 1987 high. Something has to give and we know there is no such thing as a "free lunch." We remain cautious about the LBO fever and worried about whether these activities become the bad loan headaches of tomorrow.

1/ The Economist, "America's Capital Markets," June 11-17, 1988, p. Survey, 6.

2/ Securities Data Co.

Table 4

STATEMENT OF INCOME
LARGE INVESTMENT BANKS

(In $ Millions)

Revenues	1986	1987	% Chg.	Quarterly Avg. 1987	88:Q1	% Chg.
Commissions	1,439.2	1,816.1	26.2	454.0	339.0	(25.3)
Trading Profits	5,152.1	3,830.5	(25.7)	957.6	1,084.8	13.3
Investment Gains	522.6	95.3	(81.8)	23.8	193.9	714.7
Underwriting	1,967.9	1,814.0	(7.8)	453.5	409.0	(9.8)
Margin Interest	483.2	610.3	26.3	152.6	101.3	(33.6)
Mutual Fund Sales	51.0	39.7	(22.2)	9.9	5.6	(43.4)
Fees, Account Supervision	307.9	352.9	14.6	88.2	75.3	(14.6)
Research	22.4	1.0	(95.5)	0.3	0.0	--
Commodities	235.7	197.2	(16.3)	49.3	146.6	197.4
Other Securities Related	3,883.4	4,727.9	21.7	1,182.0	1,388.2	17.4
Other Unrelated	1,195.1	1,289.2	7.9	322.3	358.8	11.3
Total Revenues	15,260.5	14,774.2	(3.2)	3,693.6	4,102.4	11.1
Expenses						
RR Compensation	1,532.6	1,437.5	(6.2)	359.4	355.5	(1.1)
Clerical Compensation	1,918.7	2,172.0	13.2	543.0	632.5	16.5
Partner/Officer Comp.	522.9	599.5	14.6	149.9	175.7	17.2
Floor (Commission/Clearing)	327.2	478.8	46.3	119.7	108.1	(9.7)
Communications	394.0	444.5	12.8	111.1	101.0	(9.1)
Occupancy & Equipment	416.0	554.6	33.3	138.7	164.3	18.5
Promotional Costs	204.8	241.3	17.8	60.3	46.1	(23.5)
Interest Expense	6,434.6	6,735.8	4.7	1,684.0	1,785.2	6.0
Errors/Bad Debts	42.7	168.8	295.3	42.2	5.1	(87.9)
EDP	200.9	253.7	26.3	63.4	63.3	0.2
Non-Recurring Charges	18.8	59.2	214.9	14.8	3.8	(74.3)
Regulatory Fees	50.3	41.4	(17.7)	10.4	8.1	(22.1)
Other	1,129.8	894.9	(20.8)	223.7	167.3	(25.2)
Total Expenses	13,193.2	14,081.6	6.7	3,520.4	3,616.0	2.7
Pre-Tax Net Income	2,067.3	692.6	(66.5)	173.2	486.4	180.8

NEW YORK CITY-BASED FIRMS

From earlier analyses, we have found the New York Based firm category to be a heterogenous grouping. In some ways, they are microcosms of the Large Investment Banks; that is, much more dependent on trading and investment profits and merchant banking than other segments of the industry. Because they are so heavily dependent on trading, investment, and merchant banking activities, this category suffered grievously during Q4 1987. This was reflected in the sharp deterioration in 1987 of their pre-tax profit margin and ROE relative to 1986.

In fact, their fourth quarter losses in investments (a FOCUS revenue line which can, and did, read in the negative) reached $447 million -- which halved their Q4 total revenues down to $437 million. That translated into a 70% drop in revenues from the NYCs' third quarter -- the closest we've seen to a group of firms posting zero or negative revenues and a milestone in highlighting the principle business' risk and volatility!

However, the NYCs' net income exploded during the first quarter of 1988, increasing from an average quarterly profit of $24.5 million in 1987 to over $200 million during the first quarter. Despite a revenue increase of 15% relative to the average quarter last year, these firms were able to cut costs by 1%. Their profitability turnaround was due to the change in investment gains. Whereas they lost on average over $19 million per quarter during 1987, they earned over $190 million during Q1 1988 alone. Also, "revenues related to the securities business" increased 20% over the average for 1987 and hit an all-time high of over $400 million, reflecting the first quarter's booming M&A advisory business which the NYCs are actively involved in.

Interestingly, this group of firms had net employment hirings of around 5% for producers and non-producers alike since the crash. There was a choice pool of securities professionals to choose from while these firms were building their 1988 business. Furthermore, their compensation expenses held about even despite additions to their workforce.

Like other firm categories, the NYCs' revenues from the commission business tumbled more than 25% during the first quarter of 1988 relative to the quarterly average of 1987.

The key to their first quarter improvement lies in their trading and investment strategies. As trading revenues increased more than 46% and investment profits went from a negative $19 million to a positive $190 million, interest expense went up only 4% in the first quarter relative to the quarterly average during 1987. With securities related, i.e., merchant banking activities up 20% during Q1 1988 relative to 1987, these firms remain unscathed from the dismal commission and other retail market segments of the industry suffering this year. As mentioned, this category's dependence on merchant banking and trading activities was reflected in the volatile and sharp deterioration in their 1987 performance relative to 1986. Of all the firm categories, this group suffered the most from the carnage of the last quarter of 1987 while benefitting the most from rising security prices and a flourishing M&A environment during Q1 1988.

Table 5

STATEMENT OF INCOME
NEW YORK CITY-BASED FIRMS

(In $ Millions)

Revenues	1986	1987	% Chg.	Quarterly Avg. 1987	88:Q1	% Chg.
Commissions	1,294.0	1,561.5	20.7	390.4	291.7	(25.3)
Trading Profits	685.1	621.0	(9.4)	155.3	227.8	46.7
Investment Gains	130.5	(77.3)	(159.2)	(19.3)	190.7	N/A
Underwriting	184.8	116.9	(36.7)	29.2	20.2	(30.8)
Margin Interest	166.0	207.8	25.2	52.0	34.4	(33.8)
Mutual Fund Sales	52.4	37.6	(28.2)	9.4	5.2	(44.7)
Fees, Account Supervision	253.2	339.4	34.0	84.9	64.2	(24.4)
Research	10.1	5.1	(49.5)	1.3	0.6	(53.8)
Commodities	10.8	11.8	9.3	3.0	6.3	110.0
Other Securities Related	965.1	1,340.4	38.9	335.1	402.0	20.0
Other Unrelated	87.3	372.1	326.2	93.0	60.2	(35.3)
Total Revenues	3,839.2	4,536.6	18.2	1,134.2	1,303.8	15.0
Expenses						
RR Compensation	478.4	527.3	10.2	131.8	152.5	15.7
Clerical Compensation	565.8	743.7	31.4	185.9	171.6	(7.7)
Partner/Officer Comp.	141.2	150.7	6.7	37.7	33.8	(10.3)
Other Compensation	186.0	210.8	13.3	52.7	27.4	(48.0)
Floor (Commission/Clearing)	243.2	325.9	34.0	81.5	68.2	(16.3)
Communications	121.3	145.0	19.5	36.3	37.8	4.1
Occupancy & Equipment	132.8	178.0	34.0	44.5	61.6	38.4
Promotional Costs	60.9	75.9	24.6	19.0	18.8	(1.1)
Interest Expense	849.5	1,503.6	77.0	375.9	392.0	4.3
Error/Bad Debts	13.4	28.9	115.7	7.2	3.9	(45.8)
EDP	36.8	58.1	57.9	14.5	13.9	(4.1)
Non-Recurring Charges	4.5	7.8	73.3	2.0	0.1	(95.0)
Regulatory Fees	28.3	31.1	9.9	7.8	7.8	--
Other	357.4	451.8	26.4	113.0	109.0	(3.5)
Total Expenses	3,220.8	4,438.6	37.8	1,109.7	1,098.4	(1.0)
Pre-Tax Net Income	618.4	98.0	(84.2)	24.5	205.4	N/A

REGIONAL FIRMS

The bulk of retail land, outside of the NFLs' mega-metro center, is made up of the Regional firms. Highly reliant on the retail client, this large group of firms accurately reflects the suffering half of the split securities world.

The Regionals' profitability picture continued to be distressing. Although almost any environment would be better than the fourth quarter of last year, the Regional firm community earned only $45 million before taxes during Q1 1988. This was a decrease of one-third from the quarterly average of 1987. Even more distressing, if last year's fourth quarter loss is disregarded (which is hard to do), this year's first quarter profit was the lowest for the Regionals since 1985's second quarter -- and that's not even inflation adjusted!

With quarterly revenues plunging 14.5%, the Regional firm community found it difficult to cut costs at the same pace, although they made impressive strides in attempting to do so. Costs were down over 13% compared to the quarterly average for 1987.

Customers of the Regional firm community remain paralyzed because of the events during last October. Commission revenues, underwriting, and commissions from mutual fund sales in particular, plummeted during the first quarter as compared to 1987. Commissions were down about 25% or more (again, the lowest level since 1985) while mutual fund sales revenues were down over 40%, virtually tied with Q4's disastrous level, the lowest since 1985's first quarter. In underwriting, as with mutual funds, 1987's Q4 and 1988's Q1 underwriting levels were the worst since Q1 1985.

Fortunately, the managements of Regional firms have moved quickly in curbing costs so as to remain viable. As is the case with other firm categories, RR compensation, clerical and administrative salaries, and interest expense are the three largest cost factors. All three expense items declined in the first quarter relative to the average quarter last year, but only RR compensation fell at a pace quicker than the decline in revenues. In this case, however, RR comp's fall cannot be attributed to a pared-back workforce. As a group, Regionals showed a 2% net increase in producers (although the body count was up merely 300 people and in the clerical area, 700 jobs, or 3%, were pared back). The cut in RR expense was entirely due to severely lower gross production. SIA's "Production and Earnings of RRs" report showed average retail RR production down about 24% but particularly devastating at the smaller Regionals. Those with 50 to 100 RRs saw their retail RR's average gross production fall 60% in the six months since the crash!

Coming on top of the $62 million loss during the fourth quarter of last year, morale at the Regional firms remains depressed. Nevertheless, cost reductions of 13% during the first quarter of 1988 relative to quarterly expenses last year are nothing to sneeze at in terms of managerial accomplishment. When the revenue turnabout does occur, the Regional firms should be immediate beneficiaries as they have pared their costs back substantially.

This cost flexibility has been important to the Regional firm community. Despite suffering the consequences of the disastrous Q4 1987 like everybody else, these firms fared better than the industry average during 1987. Their pre-tax profit margin of 5.5% and ROE of 14.1% during 1987 compared favorably to the "industry's" results.

The trauma of October 19 and its aftermath remains ingrained in the memories of the Regional firm community and their customers. It may be some time before their customer base decides to jump into the market again as investors or issuers. This being the case, the trick is to keep costs down and push other products while boosting morale of the salesforce. The plunge in commissions and associated activities is an ominous trend for these firms. Their greatest danger lies in a protracted bear market with customers simply losing interest in "core" financial products.

However, time is on the side of the Regionals. Eventually, people forget the last trauma and recognize good value. The economy's performance over the last eight months warrants confidence, particularly in light of reduced international tensions, both economic and military. Moreover, during the next 15 years, the 45-65 age group in the U.S. will increase by 7.7 million individuals compared to a 1.1 million increase over the last 10 years.3/ Such a dramatic increase in the largest savings group represents a vast potential market for firms focusing on the retail investor.

3/ The Economist, "America's Capital Markets," June 11-17, 1988, p. Survey, 27.

Table 6

STATEMENT OF INCOME
REGIONAL FIRMS

(In $ Millions)

Revenues	1986	1987	% Chg.	Quarterly Avg. 1987	88:Q1	% Chg.
Commissions	1,642.7	1,813.0	10.4	453.3	338.6	(25.3)
Trading Profits	929.5	819.8	(11.8)	205.0	246.5	20.2
Investment Gains	47.7	37.3	(21.8)	9.3	26.9	189.2
Underwriting	711.4	629.2	(11.6)	157.3	117.9	(25.0)
Margin Interest	277.7	314.0	13.1	78.5	63.1	(19.6)
Mutual Fund Sales	659.5	533.3	(19.1)	133.3	76.6	(42.5)
Fees, Account Supervision	86.9	107.8	24.1	27.0	23.8	(11.9)
Research	9.2	10.2	10.9	2.6	5.0	92.3
Commodities	46.1	48.9	6.1	12.2	12.8	4.9
Other Securities Related	461.7	531.7	15.2	132.9	123.7	(6.9)
Other Unrelated	95.3	117.1	22.9	29.3	25.8	(11.9)
Total Revenues	4,967.4	4,960.7	(0.1)	1,240.2	1,060.8	(14.5)
Expenses						
RR Compensation	1,422.2	1,405.7	(1.2)	351.4	272.8	(22.4)
Clerical Compensation	881.0	915.1	3.9	228.8	219.0	(4.3)
Partner/Officer Comp.	335.6	313.6	(6.6)	78.4	65.7	(16.2)
Other Compensation	86.2	139.1	61.4	34.8	34.1	(2.0)
Floor (Commission/Clearing)	228.3	230.4	0.9	57.6	48.5	(15.8)
Communications	307.0	327.9	6.8	82.0	77.0	(6.1)
Occupancy & Equipment	248.5	267.4	7.6	66.9	67.8	1.3
Promotional Costs	125.7	137.6	9.5	34.4	31.4	(8.7)
Interest Expense	330.3	396.7	20.1	99.2	88.6	(10.7)
Error/Bad Debts	34.6	83.4	141.0	20.9	6.9	(67.0)
EDP	75.0	82.5	10.0	20.6	19.9	(3.4)
Non-Recurring Charges	2.3	2.0	(13.0)	0.5	1.2	140.0
Regulatory Fees	37.2	43.4	16.7	10.9	8.7	(20.2)
Other	307.4	341.6	11.1	85.4	74.1	(13.2)
Total Expenses	4,421.3	4,688.1	6.0	1,172.0	1,015.7	(13.3)
Pre-Tax Net Income	546.1	272.6	(50.1)	68.1	45.2	(33.6)

DISCOUNTERS

The Discount category also suffered a deterioration in profitability during Q4 1987. Their pre-tax profit margin plunged from 15.7% in 1986 to 8.6% in 1987. Meanwhile, because of the limited amount of capital required to do a discount business, their pre-tax ROE, although dropping from 49.5% in 1986 to 19.7% in 1987, remained the highest of all the firm categories.

Surprisingly, the Discount firms were "way off the board" in terms of trends in total revenues and total expenses compared to the other firm categories. Whereas industry revenues rose 1.5% from 1986 to 1987, the revenues of the Discounters increased almost 40% last year. More interestingly, as the industry's expenses rose over 11% during 1987, the costs of the Discount category almost increased by 50% from 1986 to 1987; yet, their pre-tax ROE remained at close to 20% during 1987. Surprisingly, the Discounters appeared lax in almost every expense category as they anticipated continued expansion in their business.

Losses in error accounts and bad debts skyrocketed for the industry in October. DKs and unmet margin calls plagued the industry that month, although given the unprecedented 600 million share days and the biggest market crash ever, things went rather smoothly. For the Discounters, this loss/error line went from an average of $1-$2 million per quarter to a record $61.3 million in the fourth quarter. That effectively reversed what would have been a profit of $22 million into a loss of $39.3 million (although a good part of this loss is probably due to one well-publicized loss in a single account at one discounter).

Literally every expense item increased by at least 20% relative to the previous year. With commissions, margin interest revenues, and commissions from mutual fund sales all increasing by 30% or more, the Discounters took a very optimistic view about future business trends and were busy adding staff and equipment to handle what seemed like an endless upsurge in retail customers using Discounters to handle their increased activity.

Naturally, Q4 1987 changed these trends. Whereas revenues and costs were both rising sharply in 1987, these variables changed direction suddenly during Q1 1988. Revenues plunged over 17% relative to the average quarter during 1987 while costs were cut almost 13%. Commission revenues fell over 25% while margin interest revenues fell over 16%. Because these two revenue items comprise about 70% of the total revenues of the Discount category, total revenues plunged over 17%.

The Discounters made a valiant attempt to cut costs in order to counter their falling revenues. Although expenses were reduced almost 13% (after increasing 50%), pre-tax net income fell by nearly two-thirds relative to the quarterly average for 1987. The Discounters reacted quickly by reducing expenses related to compensation, except for RR compensation (+27%) and clerical and administrative salaries which surprisingly increased by 2%.[4/] Also, like other firms, they had trouble controlling their occupancy

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4/ Although it contradicts the layoffs/hiring freezes announced by the Discounters, their FOCUS data showed a net gain of 35 producers (up 3.3%) and 366 non-producers (up 11.4%) or a total headcount increase of 401 people (up 9.4%) in the six months since the crash.

and equipment costs, possibly because of commitments made in earlier periods, as these expenses rose 20% while revenues were falling 17%. Like the Regionals, given the interruption of their basic business, commissions and revenues from margin accounts, the immediate future looks bleak for Discounters. If the doldrums continue in the retail market, they will have to make further tough decisions concerning clerical and administrative positions as well as occupancy and equipment costs to restore profitability to healthier levels.

The languishing and depressed retail and commission business is reflected in the profit margins of the Discounters. After pre-tax profit margins of 15.7% in 1986, their profit margin fell to 8.6% in 1987 and only 3.8% during Q1 1988. The Q1 1988 figure was the lowest since 1984 and the second lowest of the time periods we have recorded since the 1980s. Likewise, their pre-tax ROE tumbled to 6.4% during Q1 1988.

In the past, Discounters have enjoyed pre-tax ROEs higher, in general, than the industry. Despite the disastrous fourth quarter, the Discounters still earned a pre-tax ROE almost four times that of the total industry. However, this was not the case for Q1 1988 when their pre-tax ROE was less than one-half that of the industry's 18.1%. Except for the wirehouses, the Discounters had the lowest ROE among all the firm categories. Unless the retail market turns around, these firms will continue to suffer and will have to cut expenses or diversify their product base further, if they hope to survive the market doldrums.

Table 7

STATEMENT OF INCOME
NYSE DISCOUNTERS

(In $ Millions)

Revenues	1986	1987	% Chg.	Quarterly Avg. 1987	88:Q1	% Chg.
Commissions	539.2	717.5	33.1	179.4	133.1	(25.8)
Trading Profits	9.7	5.5	(43.2)	1.4	1.8	28.6
Investment Gains	6.8	(0.7)	(110.3)	(0.2)	3.7	N/A
Margin Interest	148.2	192.4	29.8	48.1	40.2	(16.4)
Mutual Fund Sales	8.7	11.4	31.0	2.9	3.2	10.3
All Other	180.9	304.3	68.2	76.1	73.0	(4.1)
Total Revenues	893.5	1,230.4	37.7	307.6	255.0	(17.1)
Expenses						
RR Compensation	23.1	28.1	21.6	7.0	8.9	27.1
Clerical Compensation	112.0	140.4	25.4	35.1	35.8	2.0
Partner/Officer Comp.	16.8	21.8	29.8	5.5	3.5	(36.4)
Other Compensation	50.5	117.6	132.9	29.4	28.3	(3.7)
Floor (Commission/Clearing)	140.5	171.0	21.7	42.8	29.0	(32.2)
Communications	43.2	52.9	22.5	13.2	13.0	(1.5)
Occupancy & Equipment	41.8	58.5	40.0	14.6	17.5	19.9
Promotional Costs	22.9	29.9	30.6	7.5	5.4	(28.0)
Interest Expense	120.9	167.1	38.2	41.8	43.4	3.8
Error/Bad Debts	7.0	66.7	852.9	16.7	1.3	(92.2)
EDP	40.8	55.6	36.3	13.9	7.7	(44.6)
Regulatory Fees	4.4	4.3	(2.3)	1.1	1.5	36.4
Other	129.1	210.7	63.2	52.7	50.0	(5.1)
Total Expenses	753.1	1,124.9	49.4	281.2	245.3	(12.8)
Pre-Tax Net Income	140.4	105.5	(24.9)	26.4	9.6	(63.6)

CONCLUSION

The post-crash securities industry is becoming more and more a split world -- retail vs. trading/investment banking. While October's quake didn't create the fissure, in its aftermath we can clearly see the trading/investment banking world spinning along on its merchant banking-based axis while the retail world has almost ground to a halt. A dramatic view of how the industry has changed -- the securities industry generated more than half its total revenues from commissions just over a decade ago but only 18.6% of its Q1 1988 revenues dribbled in from this source. With only about two thirds of those commissions being retail-driven, retail activity remaining at anemic levels this year, and retail-oriented firms extremely dependent on these commissions, Regionals, Discounters and National Full Line firms are in for some further tough sledding.

Also, all those wonderful merchant/investment banking, trading and investment gains which helped the institutional houses in the first quarter must be remembered for what they are -- risky and volatile. It was these same revenue sources which were the most battered in last year's fourth quarter.

However, all is not bleak. Securities firms' management learned some valuable lessons from the past. They have moved more quickly than in the past to reduce costs when faced with a revenue slowdown. For example, the last comparable period in terms of a slowdown was in 1984 when revenues rose slightly over 5% on an annual basis. In that same year, however, costs rose over 15% or almost three times as fast. Moreover, they are always challenged by sudden surges in volume and abrupt slowdowns in activity.

In 1986, volume on the NYSE surged 29% over 1985. One year later, average daily volume exploded by 34% from the previous year and day-to-day changes were even more dramatic. Meanwhile, through the first four months of 1988, volume on the NYSE lagged that from last year by more than 7%, even including the accelerated level of corporate buybacks and dividend recapture programs that have taken place. Given such turbulent changes and the variety of external shocks that affect the securities markets, it requires a delicate and, most importantly, quick reacting and fast moving management team to cope with ever-increasing volatile market conditions.

The securities industry has weathered other activity and profit droughts and this time management has moved swiftly to control the expenses they had let run away during the bull market. If the risk management strategies which were initiated after October are broadened and tightened, management may be able to better control the downside in its risk-capital targeted endeavors of the future. If management can also refrain from future runaway growth (that does not mean not to build during bull markets - that would be foolishly letting opportunity - spelled profits - slip away), but keep growth and costs at reasonable levels relative to revenues and profits and risk, the inevitable next bull (and next bear) can be a better time for all.

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APPENDIX A

In issues of Trends, SIA analyzes the financials of the "total securities industry" as well as firm category components. The "total industry" is actually a proxy for the total industry -- it is the New York Stock Exchange (NYSE) member firms which do a public business. SIA and the NYSE maintain a joint database (available to members of either organization) which updates the financials of these groups of firms on a timely, quarterly basis. The data are derived from the regulatory FOCUS (Financial and Operational Combined Uniform Single) Report filed with the NYSE.

As the table below shows, this group of firms, although small in number when compared to all broker-dealers reporting to the Securities & Exchange Commission (SEC), still account for the vast bulk of securities business done in the U.S. Even with the number of all firms reporting to the SEC doubling since 1979, and the NYSE group remaining around 400 firms (395 at year-end 1987 and 393 on March 31, 1988), the NYSE group has maintained its dominance of the financials. Also, as the table below indicates, all firm data (available only annually) is released quite late -- this issue of Trends covers the NYSE group's performance through the first quarter of 1988, while the SEC will be releasing 1987 results in late August -- another reason for using this NYSE group as a proxy for the industry.

NYSE GROUP'S SHARE OF TOTAL INDUSTRY*

(Percent)

Item	79	80	81	82	83	84	85	86
Revenues	80	80	81	81	80	81	77	77
Assets	84	85	78	86	85	88	86	86
Capital	66	65	66	70	72	71	70	71
Equity	63	63	65	69	71	69	68	69
# of Firms								
NYSE Group	374	389	390	387	412	393	381	417
All Firms	4,824	5,283	5,714	6,165	7,429	8,298	8,766	9,328

*Total industry based on data from the SEC Monthly Statistical Review, August 1987.
NYSE Group: New York Stock Exchange member firms doing a public business.

APPENDIX B

The bulk of the securities business done in the U.S. is handled by a group of about 400 NYSE member firms which deal with the public, or less than 5% of all reporting broker-dealers. Within this NYSE group, the bulk of business is also concentrated. For instance, the 25 largest NYSE firms (calculated quarterly by firm capital size) account for about three-quarters of the NYSE group's revenues and capital (see table below) while, as we've seen on the previous page, the NYSE group accounts for over three-quarters of all firms' revenues and over 70% of all firms' capital.

While this indicates a highly concentrated securities industry, the data indicates that, at least at present, the concentration has peaked. The NYSE group's share of all firms' revenues reached its highest point (81%) in 1981-82 and its share of capital (71%) in 1983, although the NYSE group remained around 400 firms while all firms doubled in the Eighties! For the 25 largest capitalized firms, their share of the NYSE group's revenues and capital peaked in 1985 at 77% and 78%, respectively.

SECURITIES INDUSTRY CONCENTRATION*

Total Revenues	80	81	82	83	84	85	86	87	88**
Top 10	53.1%	55.6%	57.3%	54.4%	58.8%	57.5%	57.3%	54.5	54.2
Top 11-25	19.4	18.7	18.7	19.6	17.1	19.7	19.8	21.1	20.8
Rest of Industry	27.5	25.7	24.0	26.0	24.1	22.8	22.9	24.4	25.0
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Revenues ($ Bils.)	16.0	19.8	23.2	29.6	31.2	38.6	50.1	50.8	13.0
Total Capital									
Top 10	50.8%	50.0%	54.8%	52.8%	57.2%	63.2%	61.9%	58.8	59.1
Top 11-25	18.0	19.7	18.3	18.8	15.6	14.8	16.0	18.7	17.3
Rest of Industry	31.2	30.3	26.9	28.4	27.2	22.0	22.1	22.5	23.6
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Capital ($ Bils.)	6.7	8.1	10.7	14.2	16.7	21.9	29.8	35.4	36.3

* NYSE Group.
**First Quarter.

VOLUME

	MAR 1988	Q1 1988	MAR 1987	Q1 1987	% CHAN Q1 1988-1987
AVERAGE DAILY SHARE VOLUME ON					
NYSE (MILS.)*	176.2	178.6	180.3	185.6	-3.8%
AMEX (MILS.)*	12.4	10.8	15.7	15.2	-29.0%
NASDAQ (MILS.)*	137.3	128.6	151.0	154.4	-16.7%
REGIONAL EXCHANGE (MILS.)*	24.9	28.0	28.0	28.4	-1.3%
DOLLAR VALUE OF SHARES TRADED ON					
NYSE (MILS.)	$134,828	$371,533	$166,316	$472,549	-21.4%
AMEX (MILS.)	3,681	8,432	5,441	15,150	-44.3%
ODD-LOT SHARES PURCHASED ON NYSE (THOUS.)	8,093	22,552	12,442	34,004	-33.7%
ODD-LOT SHARES SOLD (INCLUDING SHORT SALES) ON NYSE (THOUS.)	18,027	44,783	21,236	57,475	-22.1%
NYSE BLOCK VOLUME AS A PERCENT OF TOTAL SHARES TRADED	52.8%	51.7%	52.9%	51.2%	----
CONTRACTS TRADED (THOUS.)					
CBOE OPTIONS	9,850	27,130	16,723	51,460	-47.3%
AMEX OPTIONS	3,841	9,505	4,522	13,299	-28.5%
COMMODITY	20,636	58,578	16,657	48,663	20.4%

*MONTHLY AVERAGE
N/A - DATA NOT AVAILABLE

UNDERWRITING

	FIRST QUARTER 1988	FIRST QUARTER 1987	% Change 1988-1987
CORPORATE FINANCING (Gross New Issues - $ Mils)			
TOTAL	$67,967.1	$89,509.0	-24.1%
Common Stock	$7,732.0	$11,943.2	-35.3%
# of Common Stock Issues	68	208	-67.3%
Preferred Stock	$2,260.5	$4,006.9	-43.6%
# of Preferred Stock Issues	38	53	-28.3%
Corporate Debt	$57,974.6	$73,558.8	-21.2%
# of Corporate Debt Issues	683	690	-1.0%
MUNICIPAL FINANCING (Gross New Issues - $ Mils)			
Negotiated	$17,855.0	$26,580.5	-32.8%
# of Issues	602	957	-37.1%
Competitive	$6,334.5	$5,703.6	11.1%
# of Issues	617	855	-27.8%

YIELDS

(MONTHLY AVERAGES)

	MAR 1988	MAR 1987	BASIS POINT CHG 1988-1987
BOND BUYER INDEX (20 BOND)	7.74%	6.66%	108
CORPORATE BOND YIELDS (MOODY'S)			
Aaa CORPORATE	9.39	8.36	103
Baa CORPORATE	10.57	9.61	96
RATIO Aaa CORPS. TO Baa CORPS.	0.89	0.87	2

PRICES

(END OF MONTH)

	MAR 1988	MAR 1987	% CHAN MAR 1988-1987
DOW JONES INDUSTRIALS	1988.06	2304.69	-13.74%
STANDARD & POOR'S 500	258.89	291.70	-11.25%
NYSE COMPOSITE	146.60	165.89	-11.63%
AMEX MARKET VALUE INDEX	296.43	332.66	-10.89%
VALUE LINE COMPOSITE	228.14	267.88	-14.84%
NASDAQ COMPOSITE	374.64	430.05	-12.88%

RECENT INTERESTING READING AND STATISTICAL MATERIAL

Item	Description	Source
Production & Earnings of RRs	SIA's fifteenth annual survey. Based on data from 49 SIA member firms, 85-page report provides detailed information on: gross production of retail and institutional RRs, payout percentage, ticket sizes and branch manager earnings. Data presented by firm size classifications. Special "flash" report also compares 1987 production and earnings with the November 1987 through April 1988 period. Comparing these two periods shows retail gross production down 24.2% and institutional production off 22.3%.	William Jordan SIA $500 SIA members/ $1,200 other
Capital Gains Studies	**"The Direct Revenue Effects of Capital Gains Taxation."** Authors examine actual experience through 1985 and conclude: 1. the 1978 act produced large and continuing direct revenue gains; 2. estimates of losses from the 1981 act were dramatically overstated, and 3. both acts were significantly revenue-enhancing.	Treasury Bulletin Spring Issue June 1988
	"CBO Works on Capital Gains." Summary of the study which presents new estimates of the behavioral response to changes in tax rates on capital gains. Although significant, this response is not sufficient to generate higher revenues from lowering the tax rate on capital gains to 15%.	Tax Notes 6/20/88
	"The New Treasury Capital Gains Study: What is the Black Box?" Author Minarik disputes analysis and methodology used in the Treasury study.	
"The Globalization of Financial Markets"	Authors examine the nature of the linkages of world financial markets and the strategic implications of the global relationships for various players in the new kind of marketplace. The authors argue for the need to think beyond cross-border flows of capital to a broadly integrated, large but single marketplace.	The McKinsey Quarterly Winter 1988

Item	Description	
"Power Investors"	Article reports on a new industry trend. By pooling a firm's own money with pension funds and other institutions, Street firms are becoming outright owners of major companies. "Power investors" differ in two respects from the traditional LBO artists: focus is not solely on equity investing but providing a multitude of other fee-based services and time horizon is long- not short-term. Business in the 1990s may well be based on a firm's major stake in their clients, not just on the traditional investment-banking relationship.	Business Week 6/20/88
"America's Capital Markets"	Will the stock market crash in October follow the 1929 pattern or be a harbinger of a slump? Survey of 18-pages examines various facets of the current state of the U.S. capital markets from the British point of view. Concludes last October was not a freak but rather a warning of a deflationary tempest ahead. The repeat of a long, slow bear market would do more damage to the securities industry than would 20 crashes, as liquidity contracts and more people simply lose interest in the financial markets.	The Economist June 11-17
"Corporate Buyers Beat Anti-Takeover Defenses in 1988"	Corporate acquirers with deep pockets have shattered traditional takeover defenses consistently in 1988, prompting some M&A pros to claim traditional defense strategies no longer work in today's changing game. Pros say the best defense for a company faced with a hostile bidder is to find a white knight who will pay an even higher price than a hostile bidder. Reviews defense records of four major firms.	Investment Dealers' Digest 6/13/88
"The Rewiring of Hutton"	The task of completing Wall Street's biggest merger fell to Shearson's data shop. The philosophy as well as the "how to's" of Shearson's senior executive VP and co-chief administrative officer on the back office side of the merger are presented in this article.	Institutional Investor June 1988